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# How Google and Big Tech Killed the U.S. Patent System



**MICHAEL SHORE**

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This is the story about patents, but more importantly, it's a story about how the United States has become a modern day version of the Banana Republic. The term "Banana Republic" was coined by American author O. Henry in 1904 in reference to Honduras which came under extraordinary influence by multinational American fruit corporations.

Banana Republics are societies characterized by their starkly stratified social classes and a ruling-class plutocracy composed of the business, political and military elites. The Elites rule over a servile government that abets and supports, for

kickbacks and bribes, the exploitation of the rest of society. Instead of Dole and United Fruit controlling Honduras, we now have Apple, Microsoft, Amazon, Google and other tech giants controlling Congress and the Executive Branch through unlimited lobbying by groups like the Internet Association<sup>[1]</sup>, High Tech Inventors Alliance<sup>[2]</sup>, the Software Alliance<sup>[3]</sup>, Unified

Patents<sup>[4]</sup> and through direct political donations. As demonstrated below, the only difference between Honduras in 1904 and the United States today is that the new bananas are smartphones and the software they contain.

## What Are Patents?

A patent is a voluntary disclosure of new, novel and useful technical information to the world.<sup>[5]</sup> In essence, patents inform the world of something it has never seen before that can be used to solve a technical problem. For a patent to issue, the information disclosed must be sufficient to enable a person familiar with the technological field<sup>[6]</sup> to make the invention without undue additional experimentation.<sup>[7]</sup> The purpose of the patent system is to encourage the disclosure of new, innovative technology so the base of knowledge upon which other inventors work advances.<sup>[8]</sup> Technology advances faster and the world benefits from those advances when new technology is disclosed and built upon instead of hidden from other innovators in the field who, if they knew about the new technology, could further advance it.

In exchange for the technical disclosures in patents to competitors and potential competitors, the patentee has to be protected from free-riders and thieves who contributed nothing to the disclosed technical advancement, but would copy it for their own profit. So for disclosing her invention for others to advance going forward, the original inventor/patentee is granted a patent. The patent is an exclusive right to make money off her invention for a limited period of time. A patent is essentially a right to exclude others from using your invention without compensating you. A license from the patent owner to a company that wants to use the patented technology is a compensated, or bargained waiver of that right to exclude.

A strong patent system means an inventor can rely upon the strength of his patent to actually receive the benefit of the public disclosure of his invention. This reliance on a strong patent system is called the “presumption of validity”<sup>[9]</sup>. In order to attract investments, justify research and development efforts and develop new markets for new products, a patentee must be confident that its duly-issued (and paid for) United States patent will be enforced by the issuing government and therefore respected by competitors, both existing and potential. In other words, if the patent system is viewed as weak as to enforcement of patent rights, inventors receive nothing for disclosing their inventions. The free riders, copiers and thieves can simply take the free information without compensation to the inventor. If inventors see the patent system as weak, they will not disclose their inventions, but hide them as trade secrets. This stifles innovation because new inventions that if disclosed could be improved upon are left unavailable. Most inventions today are improvements on prior, disclosed inventions, so a weak patent systems that discourages patenting slows the advances of technology and the benefits those advances would have brought are delayed or not realized at all. Patents matter.

The beneficiaries of a weak patent system are large multinationals who already dominate their markets with financial power and market share like Google, Facebook, Apple and Amazon. The Elites do not need patents. As they gain dominance in their markets, innovation is not as important as market share, profits and maintaining their dominance. The “peasants” (read: small companies and inventors who must innovate to compete) need strong patents to compete with, and perhaps one day join the Elites. Patents enable the American Dream.



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## What Google Wants, Google Gets

Google is in essence a software company built upon a set of algorithms to enable the efficient search of internet content. Google did not invent the internet (nor did Al Gore). The internet was invented by the United States government and research institutions supported by your tax dollars.<sup>[10]</sup> Google just found a really profitable way to enable the public to efficiently use the internet.

As a business, Google is very susceptible to competition. If a group of programmers in their garage could come up with a new set of algorithms that searched more accurately, faster or even in a way that uses less energy, Google could be replaced, or at least have its market dominance threatened. But such a threat only exists if the new market participant is protected by patents. Without patent protection, Google can simply copy the new methods or use its hundreds of billions in offshore cash to buy the new market entrant for less than its full value. Google understood its precarious position as to new and emerging technologies, so it did what any Banana Republic Elite would do—it set out to destroy what it perceived as the real threat: the United States patent system.

Google was one of the three largest bundlers of campaign contributions to President Obama.<sup>[11]</sup> The year after the America Invents Act (“AIA”) was passed, Google employees and their spouses’ direct contributions to Congressmen were almost \$1 million, spread evenly between Republicans

and Democrats.<sup>[12]</sup> Google spent \$18 million on lobbyists the year the AIA was passed.<sup>[13]</sup> Google's support of "think tanks" and lobbying organizations was even greater, and was done in cooperation with other Silicon Valley tech giants.

What did Google get for its money? A new, weaker patent system that allows challenges to patents outside of court, without a jury, without any presumption of validity and using a low standard of proof. In essence, Google and its Elite friends killed any presumption of validity, the presumption that makes patents valuable by protecting the expectations of patent owners that their rights would be enforceable in neutral, impartial courts against infringers. The patent owners who paid for the research and development of their inventions, paid attorneys to prosecute the patents according to the rules at the time, paid filing fees to the PTO, paid issuance fees to the PTO, paid maintenance fees to the PTO, then created markets for their patented products with investments in factories, distribution systems, marketing—all based on the presumption that these investments would be protected from copiers, free riders and thieves by a strong U.S. patent enforcement system now possessed patents that were not presumed to be valid under the new AIA procedures, a fact that has caused immense economic damage to inventors and small companies that depended on their patents for protection from infringing Elites.<sup>[14]</sup> The Elites paid their way to the destruction of the very things that made U.S. patents valuable—their presumption of validity and impartial courts to enforce them against infringers.

Google wanted a weak patent system because it already dominated the search and internet advertising market in 2012, the year the AIA went into effect, with a 67% market share.<sup>[15]</sup> Today with a weaker patent system firmly in place and no fear of any innovating competition protected by patents, Google's market share has increased to almost 80%.<sup>[16]</sup>

## **Killing the U.S. Patent System Required the Hiring of Executioners, in This Case, Administrative Patent Judges (APJs)**

Now that Google and other Elites had destroyed the presumption of validity and removed impartial judges from the decision-making process via the AIA, they needed a set of executioners. To finish the job of killing the U.S. patent system, the administrative judges appointed to hear the cases had to be insulated from meaningful legal review and understand that their job was to kill patents. Enter head banana, Michele Lee, the political appointee who headed the PTO's implementation of the AIA under bundler recipient President Obama.<sup>[17]</sup>

Lee is a former Google patent attorney who was in charge of patent *strategy* for Google.<sup>[18]</sup> After passage of the AIA and \$36 million in lobbying by Google the prior two years, Ms. Lee was magically promoted to Director of the PTO from her position as head of the PTO's Silicon Valley

regional office.<sup>[19]</sup> The fox was not only put in charge of the henhouse, it was a fox paid for by the wolves.

The Executioners Ms. Lee chose were a new AIA creation, Administrative Patent Judges, or APJs. They are not judges in the sense that term is understood by Americans. They are not independent:

1. APJs work for the PTO Director, a political appointee.
2. The PTO Director can hire and fire APJs who make decisions they do not like. There is no tenured independence for APJs.
3. The PTO Director decides what to pay APJs and can change their pay for any reason.
4. If an APJ panel asserts its independence and reaches a decision the PTO Director does not like, the Director may convene an expanded panel to re-decide a case until the PTO Director and his/her political boss is satisfied with a panel's decision.<sup>[20]</sup>
5. The PTO Director may assign the APJs for each panel, so the decision on who hears the case is a political decision.
6. APJs are not bound by the Code of Conduct for United States Judges or any other ethics code.
7. APJs can decide cases involving former clients.<sup>[21]</sup>
8. APJs are allowed to decide cases then go to work for the same companies that sought to invalidate patents.
9. APJs are exempt from job performance reviews.

Judges that are chosen by politicians who decide cases brought by political donors to the politicians are not really judges at all. They are banana workers who pick the bananas the donors want picked.

And even if the APJs were independent, which they are not, the procedures designed by Michele Lee governing the APJs conduct were set up to kill patents. Neither the AIA nor PTO rules limit the number of times a patent can be subjected to *inter partes* review. Let that sink in. The Elites can keep attacking a patent they do not like, directly or through surrogates, until they find a panel that will kill it. No matter how many times a patent owner wins at the PTAB, its patents are never safe.

Since the creation of IPRs, patents have been routinely reviewed on multiple occasions, some patent families having **more than 125** separate petitions filed. Because a decision of one PTAB panel does not bind another one, surviving one review provides no armor against subsequent challenges. Thus, a PTO Director (or for that matter a President of the United States) intent on invalidating a *particular* patent for a major donor or supporter can continue ordering more and more *inter partes* reviews until the desired outcome is achieved. Pass the bananas.

## The Effect of PTAB Invalidating Patents Via IPRs

On September 26, 2016, the U.S. Commerce Department released a comprehensive report, "Intellectual Property and the U.S. Economy: 2016 Update," which found that IP-intensive industries support at least 45 million U.S. jobs and contribute more than \$6 trillion dollars to, or 38.2 percent of, U.S. gross domestic product. The report, a joint product of the Commerce Department's United States Patent and Trademark Office and Economics and Statistics Administration serves as an update to the Intellectual Property and the U.S. Economy: Industries in Focus report released March 2012.<sup>[22]</sup> A crisis is developing in this sector of the U.S. economy, however, as new AIA procedures allowing attacks on the validity of U.S. patents have made these valuable assets far less valuable and therefore incapable of supporting the same level of investment in new industries and technologies. Jobs are being lost, millions of high paying, high tech jobs. Some economists are estimating the decline in the value of U.S. patents to be in the *trillions* of dollars.<sup>[23]</sup> That is a *lot* of bananas.

Why the drop in value? Remember, patents are only valuable if they can be enforced, so any "reform" efforts that make enforcing a patent more expensive and less certain as to outcome harms the patent owner and undermines the ability of the U.S. economy to protect inventors' rights. The proof is in the cost of bananas. The average price per patent over the three-year period 2012 to 2014 dropped 61% from \$422,286 per patent to \$164,232. In that timeframe, the number of patents sold by inventors dropped from just under 7000 to 2800, showing a decrease in liquidity in the patent market. The overall sales dropped from \$3 billion to well under one-half billion in patent sales per year, or by 84%. The trend accelerated after 2014.<sup>[24]</sup> If an inventor cannot sell his or her invention for a price that supports their time and effort, they will stop inventing. When they stop inventing, innovation stops.

Why did this precipitous drop in the value of United States patents occur? IPRs.

Federal District Court with the traditional protections to patent owners invalidates 28.76% of patents as of 2015. The PTAB invalidates 76.61% in IPRs, and because there is no limit on the number of IPRs that can be filed against a patent, the infringers and free riders can keep filing IPRs until they win. The effective kill rate is likely close to 90%, and in some industries even higher.<sup>[25]</sup> If the IPRs were really intended to stop bad patents from being enforced at great cost, then the results in IPRs and district courts should be the same, or very similar. But the kill rate for patents in IPRs is almost three times higher. Unless you believe that the US Patent Office is wrong on its efforts to issue patents 2 of 3 times it acts, there is something else going on in IPRs. The IPR statistics prove that the system was not designed to get to the same results faster and cheaper, but to get to a different result – the destruction of the United States patent system.

Since passage of the AIA, the United States has fallen from 1<sup>st</sup> to 12<sup>th</sup> in the ranking of the strength of its intellectual property system, now tied with Italy and behind all other highly developed economies.<sup>[26]</sup> As the U.S. weakens its patent system, other countries are strengthening theirs. China in particular is beefing up its patent infringement remedies like injunctions and allowing ever higher damages awards.<sup>[27]</sup> So the center of the intellectual property universe will move to China. That can only be bad for U.S. inventors and companies. China designs its IP policies to protect Chinese entities.

The United States Congress has effectively redesigned our intellectual property policies to protect political contributors, many of which are multinational corporations that have no loyalty to the United States because a majority of their revenue is sourced (and kept beyond the reach of US taxes) overseas. Anti-patent, market dominating multinational Elites like Google are loyal to profits and their ability to dominate markets.

A Banana Republic only continues to exist as long as it can supply the bananas. Today, the Elites need the U.S. less and less. They keep trillions of dollars overseas to avoid taxes, they build their products in Asia and their largest markets are quickly becoming Asian as well. We are selling our democracy to the highest bidder while those same bidders are planting all their new banana trees elsewhere. Go ask the people of Honduras what United Fruit and Dole are doing for them now.

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[1] See <https://www.recode.net/2018/1/5/16854324/silicon-valley-trump-netflix-free-internet-association-fcc-net-neutrality-lawsuit>

[2] See <https://www.hightechinventors.com/>

[3] See <http://www.bsa.org/>

[4] See <https://www.unifiedpatents.com/>

[5] See <https://www.bitlaw.com/patent/requirements.html>

[6] The term of art in the patent world is a “person of ordinary skill in the art” of the invention. The person of ordinary skill in the art is a hypothetical person who is presumed to have known the relevant art at the time of the invention. Factors that may be considered in determining the level of ordinary skill in the art may include: (1) “type of problems encountered in the art;” (2) “prior art solutions to those problems;” (3) “rapidity with which innovations are made;” (4) “sophistication of the technology; and” (5) “educational level of active workers in the field.” *In re*

GPAC, 57 F.3d 1573, 1579, 35 USPQ2d 1116, 1121 (Fed. Cir. 1995). “In a given case, every factor may not be present, and one or more factors may predominate.” *Id.* See also *Custom Accessories, Inc. v. Jeffrey-Allan Indust., Inc.*, 807 F.2d 955, 962, 1 USPQ2d 1196, 1201 (Fed. Cir. 1986); *Environmental Designs, Ltd. v. Union Oil Co.*, 713 F.2d 693, 696, 218 USPQ 865, 868 (Fed. Cir. 1983).

[7] This “without undue experimentation” requirement is referred to as enabling the invention. See <https://www.uspto.gov/web/offices/pac/mpep/s2164.html>

[8] See <http://www.iusmentis.com/patents/crashcourse/whatis/> (“Also, when the patent is published with all the details of the invention, other people learned of the existence of this invention. They might then be inspired to think up enhancements or alternatives to the patented invention. This is particularly true when the inventor refuses to license his invention, or when the licensing fee is too high. Third parties could then develop alternative technologies to work around the patent. Presumably they would then patent these alternatives. And then society benefits by having two inventions rather than one.”)

[9] See 35 U.S.C. §282(a) (“A patent shall be presumed valid. Each claim of a patent (whether in independent, dependent, or multiple dependent form) shall be presumed valid independently of the validity of other claims; dependent or multiple dependent claims shall be presumed valid even though dependent upon an invalid claim. The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.”).

[10] See <https://blogs.scientificamerican.com/observations/yes-government-researchers-really-did-invent-the-internet/>

[11] See <https://www.opensecrets.org/pres12/contrib.php?id=N00009638>.

[12] See <https://www.opensecrets.org/pacs/pacgot.php?cycle=2012&cmte=C00428623>.

[13] See <https://www.opensecrets.org/lobby/top.php?showYear=2012&indexType=s>.

[14] See <http://www.ipwatchdog.com/2017/02/06/patent-owners-iprs-bloomberg-aipla/id=78029/>

[15] See <https://searchenginewatch.com/sew/news/2232359/google-takes-67-search-engine-market-share>.

[16] See <https://netmarketshare.com/search-engine-market-share.aspx?options=>



[17] See <https://www.uspto.gov/about-us/michelle-k-lee>

[18] See *Id.*

[19] See <https://www.opensecrets.org/lobby/top.php?showYear=2014&indexType=s>.

[20] *Nidec Motor Corp. v. Zhongshan Broad Ocean Motor Co. Matal*, No. 2016-2321, 2017 WL 3597455, at \*6 (Fed. Cir. Aug. 22, 2017) (“While we recognize the importance of achieving uniformity in PTO decisions, we question whether the practice of expanding panels where the PTO is dissatisfied with a panel’s earlier decision is the appropriate mechanism of achieving the desired uniformity.”).

[21] See <http://www.ipwatchdog.com/2017/05/02/ptab-judge-former-clients-uspto-conflict-rules/id=82765/> and <http://www.ipwatchdog.com/2017/05/03/ethical-bar-practitioners-higher-ptab-judges/id=82870/> and <http://www.ipwatchdog.com/2017/05/07/more-conflicts-interest-surface-second-ptab-judge/id=83012/>.

[22] See <https://www.uspto.gov/learning-and-resources/ip-motion/intellectual-property-and-us-economy>.

[23] See <https://patentlyo.com/patent/2015/06/america-invents-trillion.html>.

[24] See <https://www.iam-market.com/blog-entry/2016-patent-prices-hit-low-ebb-%E2%80%93-iam-market-had-positive-impact-transactions-landscape>

[25] See <http://www.ipwatchdog.com/2017/06/14/90-percent-patents-challenged-ptab-defective/id=84343/>

[26] See [http://www.theglobalipcenter.com/wp-content/uploads/2018/02/GIPC\\_IP\\_Index\\_2018.pdf](http://www.theglobalipcenter.com/wp-content/uploads/2018/02/GIPC_IP_Index_2018.pdf)

[27] See <https://www.wsj.com/articles/SB123419814824764201>.

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**Lawrence Glaser**

May 31, 2018 01:15 am

America is on to this. President Trump was told plainly, DRAIN THE SWAMP. Although he toys with its meaning, he knows what America sees. Banks and Brokerages can set traps. You fall into one, you are done. No class actions, no private right to protect your property. Just FINRA, more owned than the PTAB. That is just the tip of the iceberg. President Trump needs to stop playing The Apprentice, Grand Finale and BE THE AMERICAN HE PURPORTS TO BE. DO SOMETHING. Crooked courts, NYSE, SEC, FINRA all unbridled. Set up a committee who must follow through on ALL COMPLAINTS and make it all retroactive. DRAIN THE SWAMP. Do not say it, DO IT. Its all tied together.

**Mark Montgomery**

May 30, 2018 06:10 pm

Saw this when posted and shared again with my networks recently. For me personally the general direction of uncertainty has resulted in a sharp change in my own personal advice to entrepreneurs relative to risk and methods (pro bono for last decade — consulting and VC earlier). It's also changed my personal behavior. I have several AI systems inventions that are retained due to the well articulated situation above and increased activity in nation states, cyber and reverse engineering by extremely well financed actors, including corporate, state, and state affiliated.

I was an early advocate for Microsoft, Google and many others at pre-investment stage, later becoming a critic when they matured into predatory monopolies. Today we are experiencing an oligopoly expanding rapidly across industries with threat of global oligarchs, which could become much worse in a regionalization phase unless and until anticompetitive behavior is restrained in a meaningful manner. Our antitrust laws still apply to some degree but are out of date and, since not enforced, are irrelevant anyway. Speaks to problem above.

The irony of Google is that without two key patents the company very likely would not exist. Funding was a challenge — almost a year after I and I suspect others recommended to the two leading VC firms. One was internal for the search algo — very simple by today's standards — even quaint or primitive compared to AI, but effective for the time. The second as I recall was a business method patent owned by Idea Lab. I don't recall whether funding came before the Idea Lab license was negotiated, but do recall it was reported to be intense negotiations.

As a nearly life-long entrepreneur and patriot nothing has been more regrettable as assisting companies early in life, enjoying witnessing, observing and advocating through growth stage just to see them become monsters that attempt to prevent others from having the same opportunities they enjoyed.

One frustration that comes close is to observe your country becoming complicit in that behavior, particularly for reasons that appear to be based on corrupt political

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